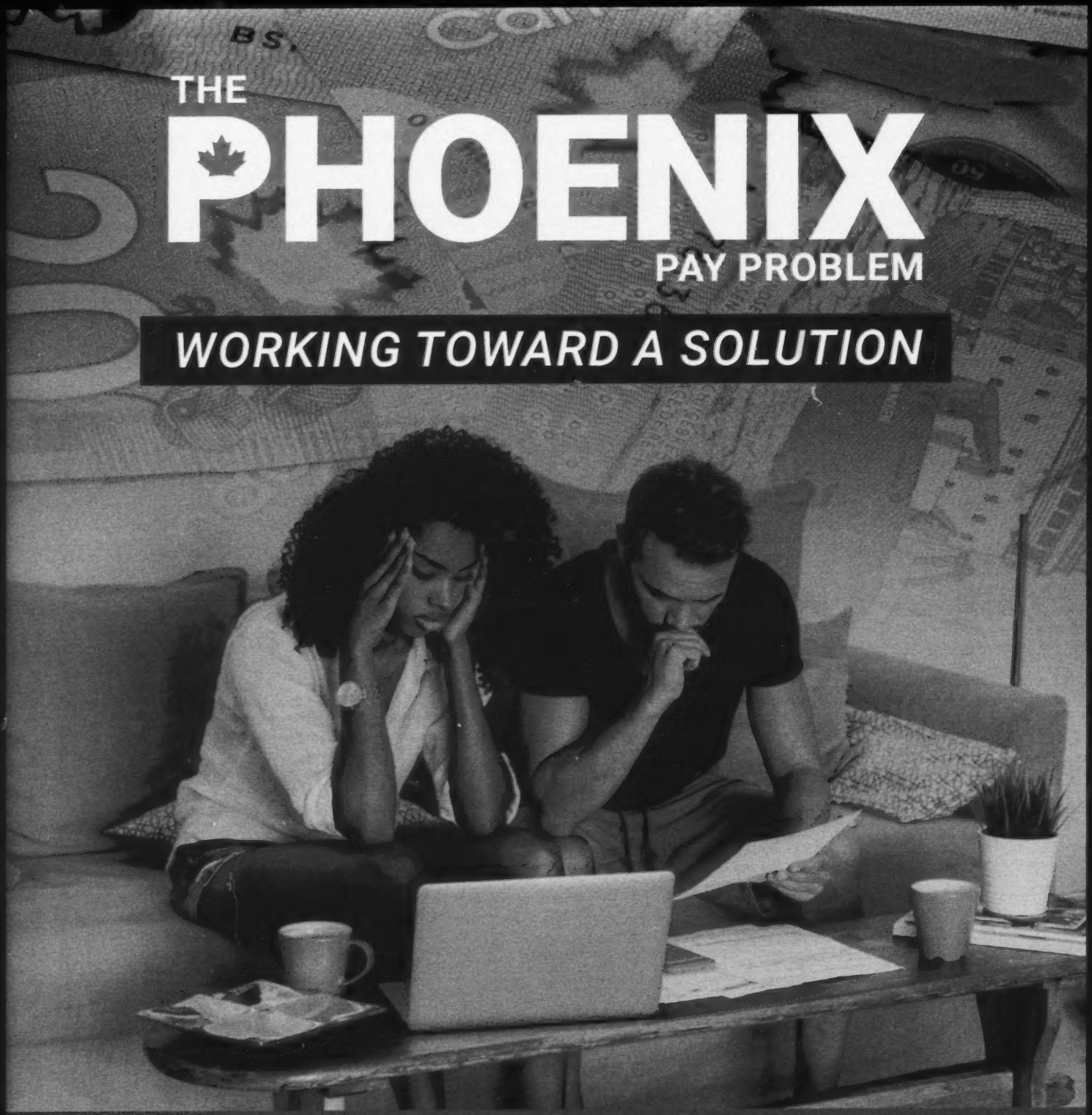
THE PHOENIX PAY PROBLEM

WORKING TOWARD A SOLUTION



SENATE | SÉNAT
CANADA

Report of the Standing Senate Committee
on National Finance

The Honourable Percy Mockler, Chair
The Honourable Mobina S.B. Jaffer, Deputy Chair
The Honourable André Pratte, Deputy Chair

JULY 2018

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The Committee Membership

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*Mobina S.B. Jaffer, Deputy Chair

*André Pratte, Deputy Chair

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Ex-officio members of the committee:

The Honourable Senators Peter Harder, P.C. (or Diane Bellemare or Grant Mitchell), Larry W. Smith (or Yonah Martin), Joseph A. Day (or Terry M. Mercer), Yuen Pau Woo (or Raymonde Saint-Germain)

Other senators who have participated from time to time in this study:

The Honourable Senators Pierre J. Dalphond and Éric Forest

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Marcy Galipeau, Head, Strategic Communications

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Order of Reference

Extract from the *Journals of the Senate*, Wednesday, January 27, 2016:

The Honourable Senator Campbell moved, seconded by the Honourable Senator Ringuette:

That the Standing Senate Committee on National Finance, in accordance with rule 12-7(5), be authorized to examine such issues as may arise from time to time relating to federal estimates generally, including the public accounts, reports of the Auditor General and government finance; and

That the committee report to the Senate no later than December 31, 2017.

The question being put on the motion, it was adopted.

Charles Robert

Clerk of the Senate

***

Extract from the *Journals of the Senate*, Tuesday, December 5, 2017:

The Honourable Senator Mockler moved, seconded by the Honourable Senator Raine:

That, notwithstanding the order of the Senate adopted on Wednesday, January 27, 2016, the date for the final report of the Standing Senate Committee on National Finance in relation to its study on such issues as may arise from time to time relating to federal estimates generally, including the public accounts, reports of the Auditor General and government finance, be extended from December 31, 2017 to December 31, 2019.

The question being put on the motion, it was adopted.

Nicole Proulx

Clerk of the Senate

Executive Summary

As a result of the federal government's Transformation of Pay Administration Initiative, which led to the Phoenix pay system, more than half of the federal government's 290,000 public servants have experienced pay problems, causing significant anxiety, stress and hardship. Instead of realizing $70 million in annual savings by centralizing pay operations, the government will incur approximately $2.2 billion in unplanned expenditures. By any measure, the Phoenix pay system has been a failure.

To examine the causes of this failure, the Standing Senate Committee on National Finance held eight meetings with 28 witnesses, including the Auditor General of Canada, union representatives, departments and agencies, officials from IBM, the Minister of Public Services and Procurement and the Clerk of the Privy Council. We also made a visit to the Public Service Pay Centre office in Miramichi, New Brunswick.

In 2009, Public Services and Procurement Canada began the process of replacing the Government of Canada's outdated 40-year-old pay system with an automated, off-the-shelf commercial system. The department hired IBM to customize the system, which it called Phoenix. At the same time, the department sought to centralize pay operations at the Public Service Pay Centre. Together, these projects were known as the Transformation of Pay Administration Initiative, which had a budget of $310 million, including $155 million to build and implement the new payroll software. The initiative was expected to save $70 million by eliminating 650 positions, automating pay processes, and eliminating duplicate data entry.

However, as soon as Phoenix was launched in early 2016, problems arose, which continued to compound for two years after the launch, such that at the end of May 2018, the Public Service Pay Centre had a backlog of almost 600,000 pay requests. To respond to the problems, Public Services and Procurement Canada has had to hire almost 1,000 new employees and pay additional fees to IBM to make substantial changes to the software.

The causes of the failure are multiple, including, failing to manage the pay system in an integrated fashion with human resources processes, not conducting a pilot project, removing essential processing functions to stay on budget, laying off experienced compensation advisors, and implementing a pay system that wasn't ready.

We heard that some progress is being made at the Public Service Pay Centre in part by using "pods," or teams of compensation advisors to provide services to specific departments. However, we also heard that the compensation advisors do not have adequate training, and that the Phoenix pay system continues to produce numerous errors and requires regular manual intervention.

Solving the problems with the Phoenix pay system will not be easy. In our report, we make five recommendations on how the government can move toward solutions:

1. In the short term, we believe the government should support its employees by identifying priorities for processing outstanding pay requests and establishing targets for the time to process these requests.

2. The government should also assess whether it has sufficient compensation advisors and human resources staff, and whether they have adequate training.

3. To ensure continued accountability and transparency, the government should report annually on the costs associated with the Phoenix pay system.

4. In the medium term, the government should examine whether departments with complex pay requirements, such as shift work, might be better served by alternative solutions, rather than a centralized pay system.

5. In the longer term, the government should explain to Parliament the options it is considering to replace Phoenix, the costs of these options, and how it intends to avoid repeating the mistakes of the Phoenix pay system.

Lastly, and most importantly, we are dismayed that this project proceeded with minimal independent oversight, including from central agencies, and that no one has accepted responsibility for the failure of Phoenix or has been held to account. We believe that there is an underlying cultural problem that needs to be addressed. The government needs to move away from a culture that plays down bad news and avoids responsibility, to one that encourages employee engagement, feedback and collaboration.

Recommendations

Recommendation 1
That Public Services and Procurement Canada identify priorities for processing outstanding pay requests and that it establish targets for the time to process these requests.

Recommendation 2
That the government reassess the adequacy of training provided to compensation advisors, human resources staff, and public servants, as well as its staffing levels for compensation advisors and human resources staff.

Recommendation 3
That the Treasury Board of Canada Secretariat annually provide Parliament in its departmental results report the government's total costs associated with the Phoenix pay system.

Recommendation 4
That Public Services and Procurement Canada explore the possibility of alternative pay solutions for departments and agencies whose complex pay rules make the use of Phoenix difficult.

Recommendation 5
That, before embarking on a future pay transformation initiative, Public Services and Procurement Canada submit a report to Parliament outlining the options to replace Phoenix, including the costs of each option, examining the expected impact on employees, as well as setting out the monitoring and project management measures that would be put in place to avoid repeating the mistakes of the Phoenix pay system.

Introduction

The federal government has more than 290,000 employees requiring compensation in 101 departments and agencies, leading to $22 billion in annual payroll expenditures. With 105 collective agreements and work contracts incorporating 80,000 pay rules, any attempt to reform the government's pay system was going to be complicated. However, no one expected the Transformation of Pay Administration Initiative, which involved developing the Phoenix pay system and centralizing pay administration, to go so poorly.

More than two years after the implementation of the Phoenix pay system, Canada's federal public servants continue to experience pay-related problems that all too often have major repercussions. Moreover, the situation has gotten worse since the launch of Phoenix in February 2016 and, despite spending nearly $1 billion (Figure 1), the federal government has yet to find a definitive solution. According to Public Services and Procurement Canada (PSPC), as of 30 May 2018, there were 596,000 outstanding pay action requests.

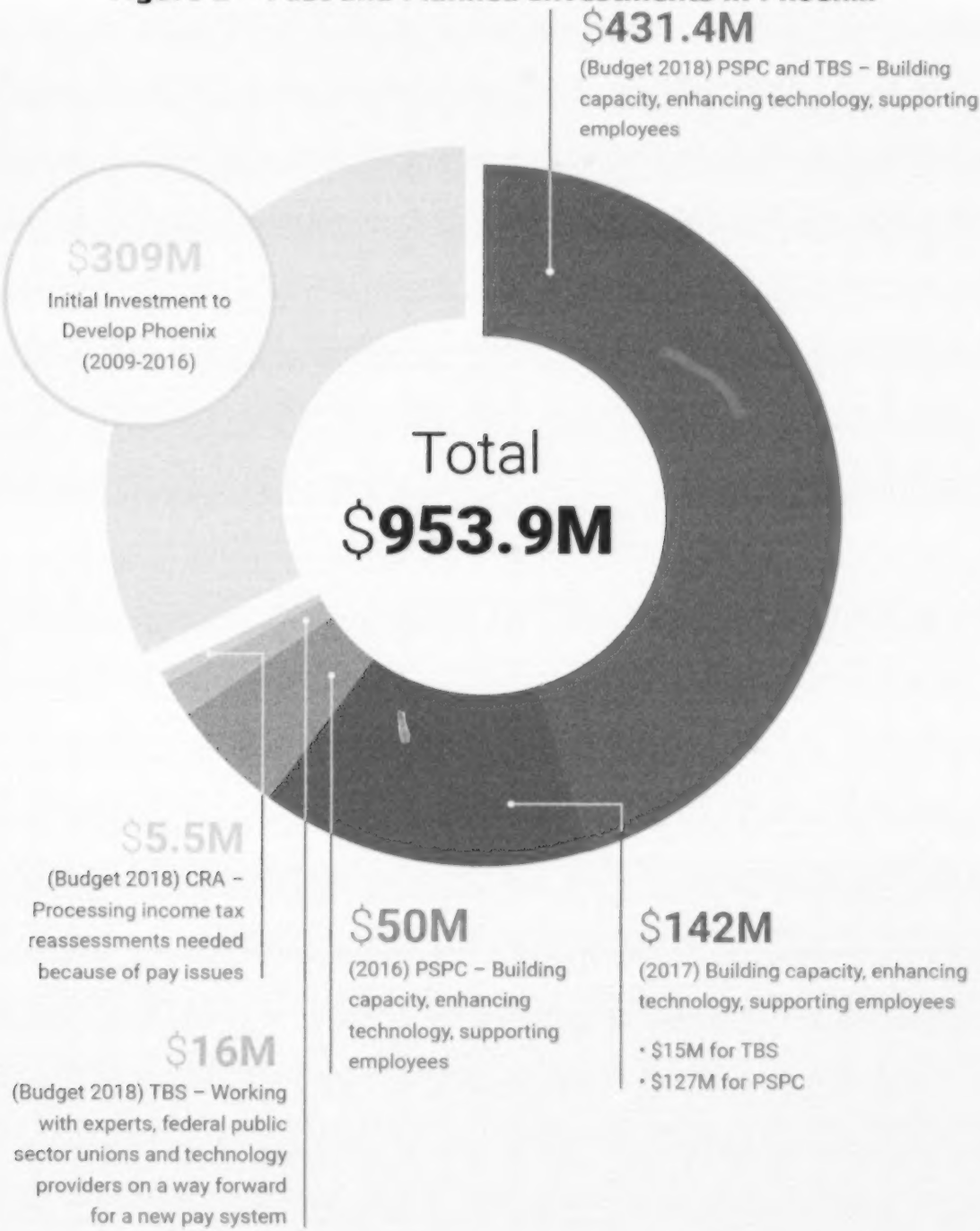
Touched by the many stories of employees who have been adversely affected by the Phoenix pay system and following the first of two reports by the Auditor General of Canada on the matter, the Standing Senate Committee on National Finance decided to study the issue further.

Over the course of eight meetings between 31 January 2018 and 20 June 2018, our committee met with 28 witnesses, including the Auditor General of Canada, representatives of three labour organizations representing over 200,000 federal government employees, officials from the Treasury Board of Canada Secretariat and PSPC, and representatives from Goss Gilroy Inc. and IBM Inc. On 7 May 2018 our committee sent a delegation of four senators to the Public Service Pay Centre office in Miramichi, New Brunswick on a fact-finding mission. The primary purpose of the visit was to meet with Pay Centre employees to hear their views.

Our committee thanks the many people who took the time and made the effort to appear before it. And special thanks to the employees at the Miramichi Pay Centre who generously shared their experiences. Their testimony is invaluable. Our committee now has a better understanding of the problems surrounding the implementation of Phoenix and its impact.

In this report, our committee looks at the development of the Phoenix pay system, summarizes the various views and concerns it heard and makes recommendations to help the government fix the Phoenix pay problems.

Figure 1 – Past and Planned Investments in Phoenix


$431.4M
(Budget 2018) PSPC and TBS – Building capacity, enhancing technology, supporting employees
$309M
Initial Investment to Develop Phoenix (2009-2016)
Total
$953.9M
$5.5M
(Budget 2018) CRA – Processing income tax reassessments needed because of pay issues
$16M
(Budget 2018) TBS – Working with experts, federal public sector unions and technology providers on a way forward for a new pay system
$50M
(2016) PSPC – Building capacity, enhancing technology, supporting employees
$142M
(2017) Building capacity, enhancing technology, supporting employees
• $15M for TBS
• $127M for PSPC

Source: Figure prepared using data from Public Services and Procurement Canada, Investments in Phoenix.

Why replace the public service pay system?

Compensation is a core element of human resources management. Employees expect to be paid the right amount at the right time by their employer. The compensation of approximately 290,000 federal employees is complex. The federal public service is governed by more than 105 collective agreements with more than 80,000 pay rules.[1] The Government of Canada's pay system, under the responsibility of PSPC, distributes approximately $22 billion in pay each year, making it the largest payroll administrator in Canada.[2]

In 2007, many public servants complained about long delays in processing their pay, which was then handled by the 40-year-old Regional Pay System. That same year, Public Works and Government Services Canada stated in its Departmental Performance Report that:

> ***"Today's pay and pension systems use outdated technology and rely on the expertise of staff due to retire in the next few years. The business processes are complex and heavily dependent on manual intervention."***[3]
>
> ***Public Works and Government Services Canada, Departmental Performance Report, 2006–2007***

Furthermore, in May 2008, the House of Commons Standing Committee on Government Operations and Estimates recommended that "the government actively support Public Works and Government Services Canada's Compensation Modernization Initiative by providing the Department with the required resources and by setting a timetable with measurable objectives."[4]

In these circumstances, and faced with the clearly aging technological infrastructure of its pay system, the government decided to develop an action plan to upgrade its pay system and improve its efficiency.

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[1] Office of the Auditor General of Canada, *Phoenix Pay Problems*, Report 1, 2017 Fall Reports of the Auditor General of Canada.
[2] Office of the Auditor General of Canada, *Building and Implementing the Phoenix Pay System*, Report 1, 2018 Spring Reports of the Auditor General of Canada.
[3] Public Works and Government Services Canada, *Departmental Performance Report, 2006–2007*.
[4] Report of the Standing Committee on Government Operations and Estimates, *The Right Pay for Valuable Employees*, May 2008.

The steps that led to building Phoenix

In **2009**, the Government of Canada started the pay transformation process for its 290,000 employees in 101 departments and agencies. Since the beginning, PSPC has been responsible for this initiative, which had two goals:

- replacing the pay system used by all departments and agencies with a more automated system; and
- centralizing pay operations for 46 departments and agencies employing nearly 70% of federal employees.

The initiative had a budget of $310 million, including $155 million to build and implement the new payroll software.

PSPC chose a PeopleSoft commercial pay software, which was to be customized to meet the government's specific needs. PSPC called this system "Phoenix." In **June 2011**, after a public competition, PSPC awarded a contract to IBM to help it design, customize, integrate and implement the new software to replace the government's old pay system. Sandy Moir, a partner at Goss Gilroy, which conducted an evaluation of the pay transformation initiative, explained why IBM was the only bidder.

> ***"The Government of Canada ... had already decided they wanted to go with PeopleSoft. It wasn't IBM that suggested it. They were looking for a system integrator that could implement PeopleSoft in the Government of Canada in the following ways. I believe the bidding community considered the requirements, considered the ask and simply felt that they didn't want to undertake the project."***[5]
>
> ***Sandy Moir, Partner, Goss Gilroy Inc.***

In **May 2012**, PSPC began to centralize pay advisors for 46 departments and agencies in the new Public Service Pay Centre in Miramichi, New Brunswick. At that time, 146 temporary employees in the Miramichi Mall began delivering pay services using the Regional Pay System.

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[5] Evidence, 27 March 2018.

By **early 2016**, 1,200 pay advisor positions in 46 departments and agencies were eliminated and replaced with 460 pay advisors and 90 support staff at the Miramichi Pay Centre.

Approximately 800 pay advisors in the other 55 departments and agencies kept their jobs and continued to enter pay information for their own employees in the new Phoenix pay system.

The government expected the initiative to save about $70 million a year, starting in the 2016–2017 fiscal year, by:

- eliminating about 650 positions, mainly pay advisors;
- automating many manual pay processes; and
- eliminating duplicate data entry and processing.[6]

Problems with Phoenix

In February 2016, 34 departments and agencies were transferred to Phoenix. Despite many problems and warnings from employees and unions, 67 departments were added in April 2016. In his testimony before our committee, Michael Ferguson, the Auditor General of Canada, said that the Phoenix problems became apparent as soon as the pay system was launched in February 2016, and the situation has only gotten worse.[7]

As Figure 2 shows, shortly before the implementation of Phoenix on 31 January 2016, 95,589 pay actions were pending at the Pay Centre, which is more than double the number of the previous year. According to the Auditor General of Canada, as departments and agencies transferred their pay files and related requests to the Pay Centre, the number of pending transactions increased exponentially.

Jean Goulet, Principal at the Office of the Auditor General of Canada, believes that the problem lies with the lack of experience, expertise and training of the 460 pay advisors at the Miramichi Pay Centre. According to him, very few of the 1,200 pay advisors who were given notice agreed to work in Miramichi. The government therefore had to hire many employees with little experience.

During our committee's visit to the Pay Centre, employees explained that the pay files that were transferred to the Centre were often incomplete, which caused many problems for Pay Centre staff and additional delays in processing the pay transactions of affected employees.

According to the Auditor General of Canada's report, as of 30 June 2017, the number of public servants with an outstanding pay request had quadrupled to 152,517 and pay action requests had increased fivefold to 494,534 (see figure 2).[8] Yet the Public Service Pay Centre Dashboard for the same period shows that 326,000 outstanding transactions were reported. The Auditor General noted that the number of pending pay action requests was approximately 29% higher than the number reported by PSPC.

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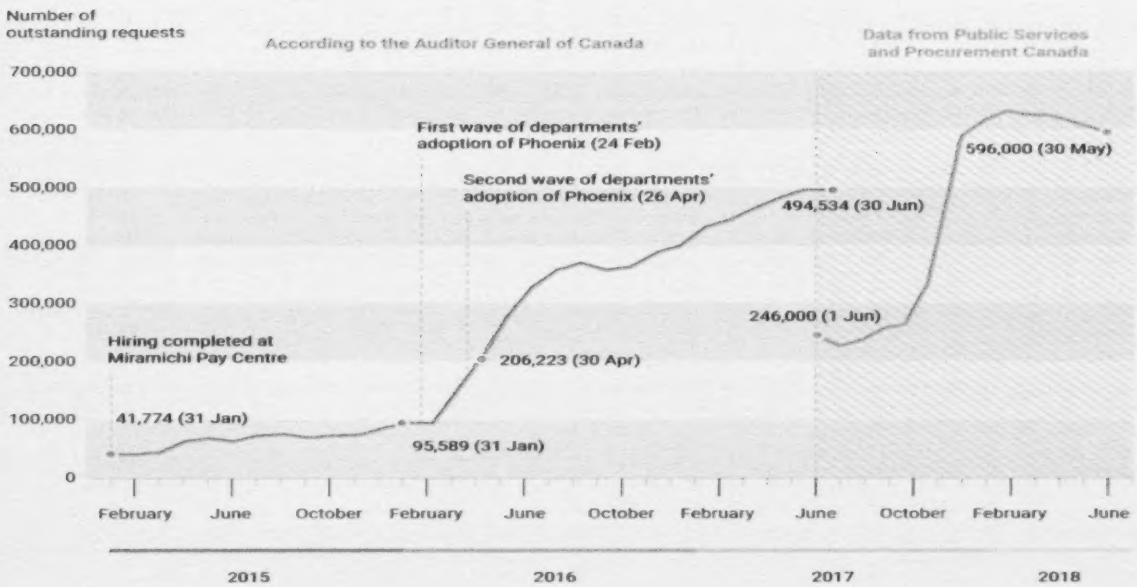
[6] Office of the Auditor General of Canada. *Report 1 — Phoenix Pay Problems.*
[7] Evidence, 31 January 2018.
[8] Office of the Auditor General of Canada. *Report 1 — Phoenix Pay Problems.*

This statement is not surprising. During the Pay Centre visit, employees told our committee that thousands of transactions were not reported on the Public Service Pay Centre dashboard. Some Pay Centre employees went as far to say that more than 90% of the pay generated by Phoenix contained at least one error.

Figure 2 – Number of outstanding pay action requests at the Public Service Pay Centre from January 2015 to May 2018



Source: Graph prepared using data from the Office of the Auditor General of Canada, *Report 1 — Phoenix Pay Problems* and Public Services and Procurement Canada, *Public Service Pay Centre Dashboard*, May 2018.

According to the Office of the Auditor General of Canada, in June 2017 there were over $520 million in outstanding pay for public servants due to errors. This amount included:

- $228 million owed by the government to 51,000 public servants who were underpaid; and
- $295 million owed to the government by 59,000 public servants who were overpaid.[9]

The audit also found that even though PSPC said it would prioritize pay requests with high financial impact ($100 or more), at the end of the audit, more than half of the outstanding pay requests were high-value and the proportion was increasing.

Our committee found that the situation continued to get worse for a long time after the completion of the audit on 30 June 2017. As of 24 January 2018, 633,000 pay action

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[9] Ibid.

requests were pending, representing a 28% increase. Encouragingly, PSPC has since been able to gradually reduce this number to 596,000 as of 30 May 2018.

We noted that the Pay Centre processed 11,000 more pay transactions than it received during two pay periods in May and 37,000 over the last four months in total.[10] At that pace, it would take a little more than five years and four months to process all currently pending transactions.

The experience of departments

To better understand how departments responded to problems with the Phoenix pay system, we heard from one department that was served by the Public Service Pay Centre, Correctional Service Canada, and another department that retained its in-house compensation advisors, Statistics Canada.

A. Correctional Service Canada

According to Nick Fabiano, Acting Assistant Commissioner, Correctional Service Canada Human Resources Management, the implementation of Phoenix has had a significant negative impact on his organization. The challenges encountered since the implementation of the Phoenix pay system are multiple and in order to reduce the financial burden on employees, a hundred emergency salary advances and priority payments are paid by Correctional Service Canada at each pay period. More than 12,000 of the department's 18,000 employees have an open file in the Pay Centre, many of which are related to pay problems. At the time of his testimony, Mr. Fabiano stated that the situation was not improving.

Errors are not being corrected, because the pay system was not programmed to support data on shifts, flexible schedules, isolation allowances and overtime. In addition, Correctional Service Canada laid off all its compensation employees just as pay services were being transferred to the Miramichi Pay Centre. Given the complexity of the department's pay requirements, more than two-thirds of employees were paid incorrectly.

B. Statistics Canada

Statistics Canada has retained its compensation advisors and, according to its officials, the agency has been able to mitigate the problems associated with Phoenix.

According to Monia Lahaie, Assistant Chief Statistician, Corporate Services and Chief Financial Officer at Statistics Canada, 20% of Statistics Canada's 7,500 employees have had a payroll problem and this number is declining. She said that one of the reasons for this good relative performance is that the organization has retained its compensation advisor teams in six regional offices to process pay transactions and assist employees. These teams have an in-depth knowledge of payroll, which has allowed the organization to

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[10] *Public Service Pay Centre dashboard*, 30 May 2018.

adapt better than other government organizations, despite the fact that its work force is represented by five unions and 11 collective agreements.

Launch of Phoenix

The launch of Phoenix was planned in two stages, in October 2015 and December 2015.

Beth Bell, Vice President and Partner, Canadian Public Sector Leader, IBM Services, said that around July or August 2015, IBM told the government that it was not sure IBM could make the October 2015 and December 2015 timelines for launching Phoenix in two stages. IBM pushed for a launch nine months later, in July 2016 and August 2016, based on the volume of work and changes that still had to be done.

Regan Watts, Head Innovation, Citizenship and Government Affairs, IBM Canada, said that despite IBM's warnings, government managers needed everything implemented by April 2016 at the latest because pay advisors had already been given their notices. He said that IBM representatives had tried to warn the government as late as January or February 2016 that neither the software nor the pay transformation process was ready.[11]

Chris Aylward, National President, Public Service Alliance of Canada, corroborated Mr. Watts' testimony by explaining that:

> Miramichi employees at the time, before the system was deployed, said, "The system is not ready; it will not work. Officials from Public Works and Government Services Canada then simply said, "Yes, it will work. We believe that it will work." The Miramichi employees were right.[12]

In response to departments' and agencies' concerns about Phoenix, the Treasury Board of Canada Secretariat hired an information technology consulting company, Gartner, to assess Phoenix's readiness. In its report, delivered in February 2016, Gartner concluded that Phoenix might not be able to pay employees accurately and on time because the system had not been fully tested and defects might not be corrected before implementation. Gartner recommended that Phoenix be gradually implemented and that the old system be maintained in case anything went wrong with Phoenix. In its audit, the Office of the Auditor General of Canada found that the Secretariat provided PSPC with the Gartner report, but PSPC officials did not consider the report's findings and recommendations before Phoenix was implemented.

The Honourable Carla Qualtrough, Minister of Public Services and Procurement argued that the government did not have a choice and had to move forward with the Phoenix pay system, since there was no longer sufficient people to manage the old system. She said:

> Two things happened when our government was faced with Phoenix in early 2016. First of all, we were advised by officials that Phoenix was ready to go and so we confidently moved ahead. The other reality was that it really was not a matter of staying with the existing system or moving to Phoenix. There quite

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[11] Evidence, 28 March 2018.
[12] Evidence, 7 February 2018.

> frankly was not an existing system to stay with. We didn't have people to run the system.[13]

According to Jean Goulet, Principal at the Office of the Auditor General of Canada, the old system continued to operate until April 2016 for departments that did not deploy the Phoenix pay system in February 2016. He said that, "If there had been a catastrophic failure early in Phoenix, the eventuality was to go back to the old system. I guess for a while it might have been possible to do that, but we have not checked that part."[14]

What happened?

Representatives from Goss Gilroy, who evaluated the pay transformation initiative for the government, concluded that the initiative had not taken into account the vast scope of the transformation, which was not simply a software replacement or a relocation of employees but was a complete reworking of a complex pay system. Many witnesses, including labour organizations, pointed out that the government did not understand what pay advisors did on a daily basis.

When asked about the performance of IBM, Jim Alexander, an associate at Goss Gilroy, said that after looking at the various documents and talking to stakeholders, it was clear that the government had spent many years developing extremely detailed requirements that specified exactly what a private sector company should do if it won the contract. In his view, IBM did precisely what the government specified, responding to multiple requests for changes throughout the length of the contract.

According to the Auditor General, Phoenix was an incomprehensible failure of project management and oversight, which led to the decision to deploy a system that was not ready.[15] He believes the decision by Phoenix officials to implement Phoenix was unreasonable according to the information available at the time, and the Treasury Board approved a project that didn't have robust oversight mechanisms built into it. According to him, to meet the project budget and timeline, Phoenix officials decided to remove critical functions, scale back testing and cancel a pilot project.

In addition, the Auditor General of Canada noted that Phoenix officials ignored clear signs that the Miramichi Pay Centre was not ready to handle the volume of pay transactions, that departments and agencies were not ready to move to the new system, and that Phoenix was not ready to correctly process the pay of federal employees.[16]

Moreover, officials did not provide complete and accurate information to deputy ministers and associate deputy ministers of departments and agencies, including the Deputy Minister of Public Services and Procurement, when briefing them on Phoenix readiness for implementation.[17]

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[13] Evidence, 21 March 2018.
[14] Evidence, 12 June 2018.
[15] Evidence, 12 June 2018.
[16] Ibid.
[17] Ibid.

Impact on public sector employees

While our committee did not have the opportunity to meet directly with employees affected by Phoenix problems, Greg Phillips, National President of the Canadian Association of Professional Employees, described two of the many cases faced by his members.

One employee was on long-term disability following an accident, trying to recover and return to work. During her five months of leave, her pay was sporadic. For her first two months back at work she received no pay. Over the following eight months, her pay resumed, but the amounts were inconsistent. She received sudden lump sum payments and then periods without pay. She requested a revised T4 income tax slip but didn't get one, and had to pay taxes on the gross amount of pay. Throughout all of this, she received numerous requests to return overpayments.

Another employee experienced problems during the birth of his child. First, he had problems obtaining a record of employment, which is required for Employment Insurance during parental leave. Then, while on leave, he reported being overpaid. As a result, he went entire pay periods without getting paid. Five months after going on parental leave, the employee received all the necessary documents. Yet, while he was trying to obtain emergency salary advances, he was also asked to refund overpayments. He spent 15 months trying to fix the resulting financial mess.

Mr. Phillips commented that other members who are also experiencing stressful life changes have had the added anxiety of not knowing when their next pay cheque will arrive. He said, "life doesn't take a break just because your employer can't pay you on time."[18]

He added that Phoenix problems have affected Canadians because public servants have cut back on their charitable donations, and their financial insecurity has a negative impact on Canada's economy.

Minister Qualtrough told our committee that there is no greater priority for her than fixing Phoenix: "It is completely unacceptable that our hard-working public servants are not being paid properly. Every day, I hear stories of hardship, anxiety and stress caused by the failings of our pay system."[19]

The fact remains, however, that union representatives are still very concerned about the many stories of their members who are struggling to pay their bills, rent and mortgages due to Phoenix problems. Unions have filed numerous grievances and are also trying to resolve some cases through unofficial mechanisms, not to mention the many members who are trying to solve their own problems.

Income tax returns affected

Under current legislation, an employee who receives an overpayment is required to repay their employer the amount of gross pay shown on their paycheque rather than the actual

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[18] Evidence, 7 February 2018.
[19] Ibid.

net pay received, if the repayment is made in the following tax year. The employee would recover the difference, including income taxes and other pay deductions, when filing their income tax return with the Canada Revenue Agency.

To help public servants avoid having to repay gross amounts, PSPC representatives expressed confidence that the department would be able to issue error-free T4 income tax slips to employees who reported their overpayments to the government no later than 19 January 2018.

However, union representatives remained concerned because they believe that not all affected employees were able, despite their best efforts, to contact the government's call centres and report overpayments. Even for those who managed to report an overpayment, union representatives believe that the government will not be able to process all these changes in time, penalizing thousands of workers who have done everything right.

According to information provided by PSPC, more than 12,165 pay actions involving overpayments were pending as of 24 January 2018.

Visit to the Miramichi Pay Centre

Our committee decided to continue its work by sending a delegation of four senators on a fact-finding mission to the Public Service Pay Centre office in Miramichi, New Brunswick. The primary purpose of the visit was to meet with pay advisors who work with Phoenix and hear their views where they work - on site. The testimony comes from fourteen current and former employees of the Pay Centre.

A. Employee training and supervision

One of the key messages from Pay Centre employees is that they lack training to do their jobs effectively and efficiently. All of the employees we spoke to at the Pay Centre want to see a return to 18 months of general compensation training, which was reduced to 12 months one year ago. Employees are given four days of Phoenix-specific training, which is grossly inadequate according to all the employees consulted.

A representative from a group of employees who are trained to handle simple pay transactions said that once their training is over, they are required to work on complex transactions for which they were not adequately trained.

Many employees said that their supervisors are often overworked and that they have to get by on their own for weeks, solving Phoenix problems that are too complex for them. On a more positive note, some employees said that employee supervision and support have improved over the past two years, but significant progress is still needed on many teams.

B. Morale of Pay Centre staff

According to a Government Services Union survey, as of 31 March 2017, close to 56% of the Pay Centre employees consulted have seen their family doctor because of work-related

concerns and stress and 80% of them are concerned about the mental health of their colleagues.[20] The employees spoken with at the Pay Centre want to make a difference and care about their work, but they are often discouraged by the sheer magnitude and difficulty of the task at hand.

While overtime is not mandatory for Pay Centre pay advisors, some said they feel obligated to do overtime in order to help federal employees with Phoenix problems as quickly as possible.

Employees told us that they appreciated having mental health professionals on site every day. On a positive note, some employees said that employee morale has increased while absenteeism and mental health problems have decreased in the last six months. They also said that the availability of additional technical tools and training opportunities have helped improve morale. However, several employees consulted say the situation continues to be a concern.

C. Technical problems reported by Pay Centre staff

Pay Centre staff discussed the technical problems with Phoenix. Many employees said that Phoenix is unpredictable, as changes to the system are often made without them being informed, meaning that solutions to pay system problems can change from one day to the next, without warning.

The main technical problems raised by Pay Centre staff include:

- thousands of outstanding pay transactions are not catalogued or accounted for in the Public Service Dashboard;
- thousands of pay transactions are overlooked and closed in batches without having been processed;
- thousands of pay transactions are not seen by a supervisor and instead accepted as is in batches;
- numerous technical problems related to automated procedures triggered by Phoenix are not resolved and impede progress;
- many employees have permission to override Phoenix's automated procedures, which poses a risk to the security of the pay system; and
- Phoenix sometimes generates multiple pays for some employees; for example, we were informed that a paycheque for $3.5 million was generated by Phoenix, but it was intercepted before the payment was issued. Pay Centre employees refer to it as "the Phoenix Lottery."

Moreover, the employees consulted were especially concerned about the inability of Phoenix to process the pay of the following employee groups, who sometimes have to wait months to be paid:

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[20] This survey, completed by 199 employees, was given to our committee by employees from the Public Service Alliance of Canada.

- Health Canada nurses, especially those working in remote regions;
- Canadian Coast Guard officers;
- National Defence firefighters; and
- Correctional Service Canada officers.

D. Pod Project

Based on recommendations from employees, the Pay Centre undertook a pilot project of "pods," which are teams of compensation advisors assigned to specific departments, rather than certain types of transactions. Based on a successful pilot project of 25 pay advisors serving a total of 10,000 employees of three organizations, the pod or "joint compensation team" approach will be rolled out for all of the Pay Centre's 46 client departments by July 2019.

According to several employees, efficiency gains are expected from this approach since Pay Centre staff will be very familiar with departments' specific pay problems and will be able to cooperate more effectively with human resources employees in the departments, which should increase the quality of pay information.

Based on the pod approach, priority is given whenever possible to processing pay transactions in the period in which the underlying event occurred to ensure the most effective use of resources. Employees stated that this process will increase their productivity because it is easier to use Phoenix for current pay transactions.

E. Solutions proposed by Pay Centre staff

All the employees who were consulted agree that Pay Centre managers should listen to employees more in order to maximize the chances of identifying and correcting technical problems in Phoenix. Many employees said that communication and collaboration between departmental human resources staff and Pay Centre staff should be encouraged. They believe this would ensure the quality of data entered in Phoenix and save time for everyone involved.

Many employees said that the government should standardize pay-related human resources processes and educate departments about the importance of entering correct pay information in a timely manner. This would significantly reduce the workload of Pay Centre employees.

F. Scrap or keep Phoenix?

There was a lack of consensus among Pay Centre employees on whether to keep Phoenix.

Some employees consulted believe that Phoenix should be scrapped, since it causes too many errors and requires too much manual intervention for pay prior to the current period. However, some employees believe that Phoenix could be kept for departments with simpler compensation models as long as the work of human resources employees is integrated into that of the Pay Centre and by providing all staff with proper training.

Other employees believe that the government should resolve the problems with Phoenix, as the system provides interesting opportunities; processing routine pay transactions is four times faster with Phoenix.

Culture of the public service

The rules, processes and procedures in place to ensure proper project management and oversight of the pay modernization project appear to have failed. Additionally, despite warnings from employees, unions, departments and agencies, IBM, and the Gartner report, the government implemented the Phoenix pay system.

In his message accompanying the Spring 2018 reports, the Auditor General of Canada said the failure of Phoenix lies, in part, in the culture of the public service that tries to eliminate risks and mistakes, and avoids responsibility when mistakes occur. He said the public service's ability to convey hard truths has eroded, as has the willingness of ministers to hear them. He asked:

> ***"How could Phoenix have failed so thoroughly in a system that has a management accountability framework; risk management policies; program evaluations; internal audit groups; departmental audit committees; accounting officers; departmental plans; departmental performance reports; pay-for-performance compensation; and audits by the Office of the Auditor General?"***[21]
>
> ***Michael Ferguson, Auditor General of Canada***

The Auditor General's observations were confirmed by the Goss Gilroy report, which noted, "In a culture where errors and failure are not tolerated, learning and innovation are stunted and with this the agility to respond to a complex and changing transformation agenda."[22]

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[21] Auditor General of Canada, *Message from the Auditor General of Canada*, 2018 Spring Reports of the Auditor General of Canada, May 2018.
[22] Goss Gilroy Inc., *Lessons Learned from the Transformation Pay Administration Initiative*, July 2017.

Michael Wernick, Clerk of the Privy Council told our committee that the Auditor General of Canada's "opinion piece" unfairly and inaccurately characterized the culture of the entire public service, which Mr. Wernick believes is one of the best in the world.[23]

Peter Wallace, Secretary of the Treasury Board, acknowledged that some controls were not implemented, and may have even been stepped around, in the management of Phoenix. He said it is important to live the values and not just have procedural checkboxes.[24]

Notwithstanding our agreement with Mr. Wernick's positive comments about the public service as a whole, his views don't address what went wrong with Phoenix. We are also concerned that no one from the Privy Council Office or the Treasury Board of Canada Secretariat, the government's two main central agencies, challenged the decisions of the PSPC officials who had authority for the Phoenix project, especially given the risks involved, and no one has taken responsibility or been held to account for those decisions.

Mr. Wernick said he asked deputy ministers to write to him describing the actions they are taking to help employees, and their responses are available online. He also suggested that the *Public Service Employment Act* be amended to make it easier to fire public servants. However, he did not explain how this would have affected the management of Phoenix, or outline actions he had taken, as head of the public service, to hold responsible individuals to account. We are disappointed that the Clerk did not acknowledge that there may be a cultural problem in the public service.

On the other hand, our committee was impressed by the dedication, mutual support, and engagement of the employees of the Public Service Pay Centre in Miramichi. These employees are working hard with the tools available to fix pay errors, as well as find innovative solutions to problems with the Phoenix pay system. One of the employees won an innovation award for an IT solution that enabled thousands of pending transactions to be processed more quickly. The employees said they have a sense of belonging to the Pay Centre and want to make a difference.

Next steps

Now that the Phoenix pay system has been implemented, and the errors have been made, it is time to look forward, in the short, medium and long terms.

A. Supporting Employees

The first priority in addressing the failure of the Phoenix pay system is for the government to support its employees.

Michael Walsh, who was at the forefront of fixing the problems with the Queensland Health, Australia, pay system in 2010, crystalized the importance of having a functioning payroll system.

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[23] Evidence, 20 June 2018.
[24] Ibid.

> ***"A payroll system in any organization is one of the fundamental relationships that exist between an employer and an employee, and that is a fair day's pay for a fair day's work. When an employer doesn't live up to its side of that relationship and provide the fair day's pay, you are undermining the fundamental relationship that exists between an employer and employee."***[25]
>
> ***Michael Walsh, Director General, Queensland Health***

The Phoenix pay problems have had considerable negative effects on public servants. A poll by the largest federal public service union, the Public Service Alliance of Canada, found that two-thirds of the respondents had their pay or compensation impacted by Phoenix.[26] Trying to fix these problems has taken hours of their time, adversely affecting mental health and work choices.

While the government has communicated general information to its employees, public servants still have no idea when their specific pay problems, among the approximately 600,000 outstanding pay transactions at the Public Service Pay Centre, will be processed.

Mr. Walsh said that one of the first things he did in Queensland was to respond to the issues raised by staff as quickly as possible, as well as meeting with staff who were affected to apologize.

The government has hired more compensation advisors, put in place new procedures and processes, and is working to improve the Phoenix pay system. But it needs to keep in mind that behind each of the reported pay problems is a personal story with someone anxiously waiting for the issue to be resolved. Given the incredible volume of problems, it is difficult to provide a timeline for the resolution of each problem, but the government needs to provide its employees with a sense of how long they need to wait for their problem to be resolved. Hence, we recommend:

RECOMMENDATION 1

That Public Services and Procurement Canada identify priorities for processing outstanding pay requests and that it establish targets for the time to process these requests.

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[25] Evidence, 28 March 2018.
[26] Public Service Alliance of Canada, Phoenix: Government and PSAC surveys confirm need for damages.

B. Stabilizing Phoenix

Minister Qualtrough told our committee that "Our immediate goal is to stabilize the pay system to ensure pay is being provided accurately and on time."[27] In a letter to the House of Commons Standing Committee on Public Accounts, Minister Qualtrough and the Honourable Scott Brison, President of the Treasury Board, outlined actions their departments have taken, and are taking, to stabilize Phoenix. The government:

- put in place an integrated HR-to-Pay governance structure and a project management office;
- undertook a root cause analysis study;
- held stakeholder forums and consulted with unions;
- provided online mandatory Phoenix training for employees and managers;
- provided more flexibility for the recovery of overpayments and the provision of emergency salary advances and priority payments;
- undertook a pilot project of pay "pods," or groups of compensation advisors serving specific departments, which will be expanded to all departments;
- hired additional compensation advisors at the Pay Centre and satellite offices;
- moved to a fixed price, outcomes-based contract with IBM; and
- is developing standardized HR-to-pay business processes.

We appreciate the steps the government has taken to date to stabilize Phoenix, and note some encouraging signs: the backlog of pay requests is no longer growing and has diminished slightly; some pay problems, such as those affecting maternity leave, appear to have been resolved; and the pod project of dedicated teams of compensation advisors to specific departments is improving efficiency and effectiveness.

However, we continue to have concerns about the adequacy of training for compensation advisors, human resources staff and public servants generally. The employees of the Public Service Pay Centre clearly indicated to us that they needed more training. They also said that there would be fewer pay errors if the information entered into Phoenix was more accurate and timely, especially as Phoenix processes pay information much differently than the previous system. As employees enter some information directly into Phoenix, it is important that all public servants have adequate training on how to use Phoenix and enter information properly.

Also, Chris Aylward, President of the Public Service Alliance of Canada, said more compensation advisors are required to achieve and maintain a state of stability.[28] In his opinion, the government must adopt a robust process with appropriate resources for hiring and training compensation advisors. We heard that Queensland Health added payroll staff, from 550 to 650, to help design, build and test their new payroll system, and when problems with their system arose, they increased their payroll staff to 900.

While we are not in a position to comment on the government's appropriate staffing levels, we believe that the government needs to reassess the adequacy of its training and staffing, especially in light of the fact that after two years, the government has yet to demonstrate that it can handle all incoming pay requests. We recommend:

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[27] Evidence, 21 March 2018.
[28] Evidence, 7 February 2018.

RECOMMENDATION 2

That the government reassess the adequacy of training provided to compensation advisors, human resources staff, and public servants, as well as its staffing levels for compensation advisors and human resources staff.

C. Costing

In response to a recommendation from the Office of the Auditor General of Canada, the Treasury Board of Canada Secretariat prepared an estimate of the total costs associated with Phoenix.[29] According to the report, current capacity and existing trend lines indicate that it may take five years to stabilize Phoenix.

The report states that unplanned costs for 2016–2017 and 2017–2018 were $361 million. Of note, according to information provided to our committee by PSPC in February 2018, the government has paid IBM $66.8 million since February 2016.

Going forward, the unplanned costs are estimated to be $336 million per year, as well as unplanned one-time costs of $124 million. The largest element of this cost is $258 million for enhanced capacity at PSPC, especially at the Public Service Pay Centre, which now has 1,455 employees. It will also include $49 million for a pay file review and $9.8 million per year to implement changes and enhancements to the pay system. The total unplanned costs to operate and stabilize the Phoenix pay system are estimated to be approximately $2.2 billion, over the seven-year period of 2016–2017 to 2022–2023. This far exceeds the $70 million of annual savings that were anticipated as a result of the Transformation of Pay Administration Initiative.

And there is no assurance that Phoenix will be stabilized within five years. We heard that after spending $1.2 billion over eight years to resolve its pay problems, Queensland Health continued to experience issues. Jim Alexander, Associate with Goss Gilroy, said, "the rough rule of thumb is that if it takes a given number of years to create a problem, it's going to be something similar to that to fix the problem as well."[30]

In order to ensure continued accountability and transparency for the costs associated with operating and stabilizing the pay system, we recommend:

RECOMMENDATION 3

That the Treasury Board of Canada Secretariat annually provide Parliament in its departmental results report the government's total costs associated with the Phoenix pay system.

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[29] Treasury Board of Canada Secretariat, *The Treasury Board of Canada Secretariat's Response to the Office of the Auditor General of Canada's Report on Phoenix Pay Problems: An Estimates of Costs to Stabilize Phoenix and Operate the Pay System*, June 2018.
[30] Evidence, 27 March 2018.

D. Interim Solutions

As the government works to stabilize Phoenix and considers options for replacing it, the government also needs to consider interim options.

Previously, pay was managed by each department and agency, with internal payroll staff making manual changes as required. Organizations with complex pay transactions, such as Correctional Service Canada, developed internal systems to calculate pay, which then fed into the Regional Pay System.

In selecting and implementing the Phoenix pay system, the government chose a single, centralized system to serve 101 departments and agencies with 80 collective agreements and 80,000 pay rules. This decision created extensive pay problems for organizations that have complex pay rules, especially for organizations with a large number of shift workers, such as the Canadian Coast Guard. These organizations lost the flexibility of the previous system and the ability to make changes to suit their circumstances, as they have no direct access to Phoenix.

The government has stated that it will be examining ways to reduce the complexity of its pay system before moving forward, for example, by simplifying pay rules and by integrating human resources and pay functions. However, these initiatives will not resolve the problems of organizations with complex pay. Instead of seeking to impose one solution for all departments and agencies, we believe the government should explore the possibility of allowing some organizations to pursue options that better suit their complex needs. We recommend:

RECOMMENDATION 4

That Public Services and Procurement Canada explore the possibility of alternative pay solutions for departments and agencies whose complex pay rules make the use of Phoenix difficult.

E. Replacing Phoenix

In Budget 2018, the government announced its intention "to eventually move away from Phoenix and begin development of the next generation of the federal government's pay system."[31] Minister Qualtrough elaborated, "Phoenix is on the chopping block, but it is not tomorrow and it could be a couple of years."[32] She said it is premature to speculate what a new system would look like, as it could be cloud-based, proprietary, developed by the government or utilize different software that was integrated with human resources.

The Auditor General of Canada told us that it would take years to develop a new pay system, as the government would need to identify what it needs to do, decide how to implement it, and test it.[33] The government also needs to address the backlog of problems with the current system before moving to a new system.

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[31] Department of Finance Canada, Budget2018, *Equality + Growth = A Strong Middle Class*, February 2018, p. 190.
[32] Evidence, 21 March 2018.
[33] Evidence, 31 January 2018.

Officials from IBM stated quite clearly that, in their opinion, they delivered a software application that works.[34] They believe that replacing the software will not resolve the government's pay problems. On the other hand, employees at the Pay Centre said the current system produces too many unexplained errors and requires too much manual intervention.

Given its experience with Phoenix, we understand the government's desire to look toward a new pay system. However, we are concerned about the $2.2 billion in unplanned costs to operate and stabilize Phoenix. We are also worried that the development of a future system could simply reproduce the mistakes and problems experienced with Phoenix. The option chosen for Phoenix, an off-the-shelf customized system that was not integrated human resources processes, did not work well. Lastly, compensation advisors and public servants in general are legitimately wary of the burdens they may face with the implementation of a new system.

To date, the government has not explained why a new system is required, how it would represent value-for-money, what options are being considered, and how the government would avoid making the same mistakes again. In light of how Phoenix was managed, we believe there should be more accountability and transparency with respect to how the government decides to move forward. Hence, we recommend:

RECOMMENDATION 5

That, before embarking on a future pay transformation initiative, Public Services and Procurement Canada submit a report to Parliament outlining the options to replace Phoenix, including the costs of each option, examining the expected impact on employees, as well as setting out the monitoring and project management measures that would be put in place to avoid repeating the mistakes of the Phoenix pay system.

Conclusion

Phoenix did not fail due to unforeseen events or challenging circumstances. Nor did it fail due to a single error or mistake. Rather, it failed due to a series of avoidable, poor management decisions, including:

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[34] Evidence, 28 March 2018.

- failing to appreciate the complexity of the human resources to pay process;
- failing to simplify pay rules before developing a new system;
- failing to put in place an appropriate governance and oversight structure;
- failing to align human resources practices with new pay system;
- selecting an off-the-shelf system that required extensive customization and was not integrated with human resources systems;
- removing critical pay processing functions from the system;
- providing inadequate training to compensation advisors, human resources staff, and employees;
- laying off experienced compensation advisors and reducing the total number of advisors before implementing the new system;
- failing to test the system through a pilot project;
- failing to develop a detailed contingency plan;
- ignoring repeated warnings from employees, unions, IBM, and an independent report that the system wasn't ready; and
- reacting slowly to problems after implementation.

We agree with the Auditor General of Canada that more rules and procedures are unlikely to prevent management failures in the future, especially as they haven't prevented similar failures in the past. Instead, there is a fundamental management cultural problem that needs to be addressed. We are dismayed that this important project proceeded with minimal independent oversight, including from central agencies, and that no one has accepted responsibility for the failure of Phoenix or has been held to account.

The consequences of this failure are significant and ongoing. In addition to substantial unplanned expenditures of over $2 billion, the hardships imposed on thousands of public servants are unacceptable. The stories of Phoenix problems reported in the media, communicated to our committee, or described to us individually as senators are truly heartbreaking. We commend the patience of public servants, who continue to provide professional service despite anxieties over their pay. We also commend the hard work and dedication of the Public Service Pay Centre employees who are trying to resolve hundreds of thousands of pay problems as quickly as possible.

We believe that employees must be placed at the heart of any solution to the Phoenix failure. Not only must the government take the necessary means to ensure that its employees are paid accurately and on time, but also it needs to develop a culture that encourages employee engagement, feedback and collaboration. Ultimately, it is employees who had the knowledge of how the pay system worked, provided warnings when things were going off track, and suffered the consequences when the pay transformation project didn't succeed.

Appendix A – Witnesses Who Appeared Before the Committee

Canadian Association of Professional Employees
Greg Phillips, National Président
Claude Vézina, Executive Director
(07-02-2018)

Correctional Service Canada
Nick Fabiano, Acting Assistant Commissioner, Human Resources Management
John Kearney, Acting Senior Director, HR Modernization and Governance
(21-03-2018)

Goss Gilroy Inc.
Jim Alexander, Associate
Sandy Moir, Managing Partner - Ottawa Office
(27-03-2018)

IBM Canada
Beth Bell, Vice President and Partner, Canadian Public Sector Leader
Bernie Semenjuk, Partner, Oracle Cloud, PeopleSoft Practice Leader, Canada
Regan Watts, Head: Innovation, Citizenship and Government Affairs
(28-03-2018)

Office of the Auditor General of Canada
Michael Ferguson, Auditor General of Canada
Martin Dompierre, Principal
Jean Goulet, Principal
(31-01-2018)
Michael Ferguson, Auditor General of Canada
Jean Goulet, Principal
(12-06-2018)

Privy Council Office
Michael Wernick, Clerk of the Privy Council and Secretary to the Cabinet
(20-06-2018)

Professional Institute of the Public Service of Canada
Stéphane Aubry, vice-president
Emily Watkins, Senior Advisor to the President
(07-02-2018)

Public Service Alliance of Canada
Chris Aylward, National Executive Vice President
Heather Finn, Special Projects Officer - Phoenix
(07-02-2018)

Public Services and Procurement Canada

Les Linklater, Associate Deputy Minister
Marc Lemieux, Assistant Deputy Minister of Pay Administration Branch
Danielle May-Cuconato, Assistant Deputy Minister of Pay Stabilization Project
(06-02-2018)
The Honourable Carla Qualtrough, P.C., M.P., Minister of Public Services and Procurement
Les Linklater, Associate Deputy Minister
(21-03-2018)

Queensland Health

Michael Walsh, Director General
(03-28-2018)

Statistics Canada

Martin Chapman, Director, Financial and Administrative Services Division
Monia Lahaie, Assistant Chief Statistician, Corporate Services, and Chief Financial Officer
Stacey Money, Director General, Human Resources
(21-03-2018)

Treasury Board of Canada Secretariat

Cécile Cléroux, Assistant Deputy Minister, Human Resources Management Transformation Sector, Office of the Chief Human Resources Officer
Tom Scrimger, Assistant Comptroller General, Financial Management, Office of the Comptroller General
(06-02-2018)
Peter Wallace, Secretary to the Treasury Board
(20-06-2018)

Appendix B – Public Service Pay Centre Capacity and Locations

	A+B+C+D+E	A+B+C	A	B	C	D	E
	Total Headcount	**All Processors**	**CR05s hired Winter 2018**	**CR05s hired Spring 2018**	**Experienced Processors**	**Pay Business Support**	**Mgmt. and Admin**
Charlottetown	64	58	42	0	16	2	4
Edmonton	12	11	0	0	11	0	1
Halifax	29	26	0	0	26	1	2
Kingston	9	7	0	0	7	1	1
Kirkland Lake	6	4	4	0	0	1	1
Miramichi	836	589	193	25	371	92	155
Moncton	100	97	67	30	0	0	3
Montreal	43	37	0	0	37	1	5
Ottawa/Gatineau	159	115	0	53	62	14	30
Shawinigan	11	10	0	0	10	1	0
Shediac	57	45	2	1	45	0	9
Toronto	26	24	1	0	23	1	1
University of Moncton	22	20	0	0	20	0	2
Vancouver	27	25	0	0	25	0	2
Winnipeg	54	47	0	0	47	2	5
Grand Total	**1455**	**1115**	**309**	**109**	**700**	**116**	**221**

Source: Public Services And Procurement Canada, 20 April 2018